

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON INGWE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ingwe Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ingwe Municipality as at 30 June 2014, and its financial performance and cash

flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairment

8. As disclosed in note 4 to the financial statements, the municipality impaired trade debtors by R7,1 million as a result of the annual review of outstanding consumer debtors.

Material underspending of the budget

9. As disclosed in the note 36 to the financial statements, the municipality has materially underspent their capital budget to the amount of R25,38 million.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 1: Access roads -on pages x to x
- Development priority 2: Electrification on pages x to x
- Development priority 3: Community amenities on page x to x

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it

was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priorities are as follows:

Electrification

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not specific and measurable

18. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 25% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 25% of the targets.

19. This was because management did not adhere to the requirements of the FMPPI.

Additional matters

20. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

21. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

Material adjustments to the annual performance report

22. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information of access roads, electrification and community amenities. As management subsequently corrected only some of the misstatements, we raised a material finding on the usefulness of the reported performance information. Those that were not corrected are included in the basis for qualified conclusion paragraph.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Human resource management and compensation

25. The municipality did not submit a report on compliance with prescribed competency levels to the national treasury and relevant provincial treasury as required by the municipal regulations on minimum competency levels regulation 14(2)(a).

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

27. Management did not respond timeously to address the matters of accurate reporting of financial and performance information and the monitoring of compliance with key laws and regulations.

Financial management

28. Non-compliance with legislation could have been prevented had management developed human resource management compliance checklists.

Auditor-General
Pietermaritzburg

28 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

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